

Solar Turbines

A Caterpillar Company

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July 2, 2018

Rajinder Sahota – Assistant Division Chief, Industrial Strategies Division
Jason Gray – Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street Sacramento, California 95814

RE: Comments on the June 21st Workshop to Continue Informal Discussion on Potential Amendments to the Cap and Trade Regulation

For more than 90 years, Solar Turbines (Solar) has been a California-based company with its corporate headquarters and two primary manufacturing and assembly facilities in San Diego. This includes approximately 4,000 employees in California and more than 7,000 worldwide. Solar is an engineering and manufacturing company providing sustainable energy solutions in global markets. Solar is the only industrial gas turbine manufacturer in California.

The San Diego Kearny Mesa facility, where nearly all new products are assembled, tested and distributed, is subject to the mandatory reporting and cap and trade regulations. Emissions are generated by gas turbine testing for research and development, and performance and safety testing required by customers.

Solar respectfully submits the following comments on the Preliminary Discussion Draft (PDD) presented by Staff at the workshop on June 21st.

- 1. Industry Assistance to Prevent Emissions and Investment Leakage.** In 2010/11, the Cap and Trade regulation presented a significant amount of uncertainty for Solar with respect to allowance allocations and Leakage Risk categorization. Contemporaneously, Solar was weighing the merits of a multimillion dollar investment in the testing capacity in San Diego. At the time, the Regulation was dictating that Solar would lose at least 25%, and up to 50%, of industry assistance. Together with a market trading scheme still under development, the probability of losing industry assistance became a business risk that could not be mitigated. Ultimately, the new test facilities were built in Texas and not California. AB-32 and Cap and Trade have presented a unique compliance challenge that factors into planning for long-term investments that will ensure Solar's competitiveness in global markets. As the only industrial gas turbine manufacturer in California, none of our global competitors all who maintain operations and production outside of California, are subject to AB-32. Without full industry assistance for the 3rd Compliance Period, and post 2020, Solar and other California manufacturing companies will face

increasing uncertainty and economic challenges to maintain capital investments in certain operations that provide significant revenue and employment in California.

2. **Section 95870-Disposition of Vintage 2013-2020 Allowances.** Solar remains concerned that the Kearny Mesa Facility continues to be designated in the PDD as a medium leakage risk for the 3rd compliance period. This designation will reduce our assistance factor by 25%. Given Solar's unique business and global facility footprint, and with our competitors outside of California not subject to AB-32, Solar requests Staff propose a "High Potential" 3rd compliance period leakage designation.
3. **Section 95871-Disposition of Allowances from Vintage year 2021 and beyond.** Solar supports Staff recommendations for Table 8-1 that includes 100% Assistance Factors for remaining compliance periods. Solar also agrees with Staff's important clarification that *"a 100 percent assistance factor does not mean businesses get all the allowances they need to comply with the Program—they still need to reduce emissions onsite or seek out additional allowances."* Even with assistance, Solar will be challenged to meet AB-32 compliance obligations while working with our customers to satisfy their requirements for product safety and performance.

In summary, Solar urges Staff to firmly propose suggested modifications that will reduce uncertainty and risk to California manufacturing. Solar has reduced emissions from engine testing, but customer requirements for demonstrating product safety through testing are increasing. Continued transition assistance under the Cap and Trade program is essential to ensure that our long-standing California based business can meet customer requirements under our current operational footprint and remain competitive in a global market place.

Thank you in advance for considering these comments. Please contact me (619) 544-5126 or Nadine Spertus (619) 544-5242 for further discussion.

Sincerely,



Colleen Klaiber
Manager, Environmental Health & Safety
Solar Turbines
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cc. Supervisor Ron Roberts